

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

|   |                            |  |                  |
|---|----------------------------|--|------------------|
| Local Government Type<br><input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |                            | Local Government Name<br>CITY OF HARRISVILLE             | County<br>ALCONA |
| Audit Date<br>03/31/2004  | Opinion Date<br>05/06/2004 | Date Accountant Report Submitted to State:<br>05/18/2004 |                  |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

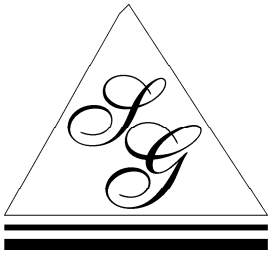
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

|   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | ✓        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | ✓            |
| Single Audit Reports (ASLGU).   |          |                 | ✓            |

|   |                    |  |              |
|---|--------------------|--|--------------|
| Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.                                      |                    |  |              |
| Street Address<br>325 NEWMAN STREET, PO BOX 592   | City<br>EAST TAWAS | State<br>MI  | ZIP<br>48730 |
| Accountant Signature<br> |                    | Digitally signed by Stephenson, Gracik and Co., P.C.<br>DN: cn=Stephenson, Gracik and Co., P.C., c=US<br>Date: 2004.06.12 09:28:29 -0500<br>Reason: I am approving this document |              |



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

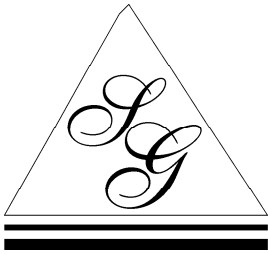
-----  
Herman A Bertuleit, CPA

CITY OF HARRISVILLE  
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED MARCH 31, 2004

AUDITORS' REPORT

|           |   |        |
|-----------|---|--------|
|           | INDEPENDENT AUDITORS' REPORT  | 1      |
|           | <u>GENERAL PURPOSE FINANCIAL STATEMENTS</u>   |        |
| EXHIBIT A | COMBINED BALANCE SHEET - ALL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT   | 2      |
| EXHIBIT B | COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  | 3      |
| EXHIBIT C | COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS  | 4      |
| EXHIBIT D | COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT                                     | 5      |
| EXHIBIT E | COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT   | 6      |
| EXHIBIT F | NOTES TO FINANCIAL STATEMENTS   | 7 - 18 |
|           | <u>OTHER DATA</u>   |        |
|           | REPORT ON OTHER DATA  | 19     |
|           | <u>GENERAL FUND</u>   |        |
| EXHIBIT G | STATEMENT OF REVENUE - BUDGET AND ACTUAL  | 20     |
| EXHIBIT H | STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL   | 21     |
|           | <u>ALL SPECIAL REVENUE FUNDS</u>  |        |
| EXHIBIT I | COMBINING BALANCE SHEET   | 22     |
| EXHIBIT J | COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES   | 23     |
|           | <u>ALL ENTERPRISE FUNDS</u>   |        |
| EXHIBIT K | COMBINING BALANCE SHEET   | 24     |
| EXHIBIT L | COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS   | 25     |
| EXHIBIT M | COMBINING STATEMENT OF CASH FLOWS   | 26     |
|           | <u>ALL TRUST AND AGENCY FUNDS</u>   |        |
| EXHIBIT N | COMBINING BALANCE SHEET   | 27     |
| EXHIBIT O | STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  | 28     |
|           | REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 29     |



# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA  
-----  
Herman A Bertuleit, CPA

May 6, 2004

## Independent Auditors' Report

Members of the City Council  
City of Harrisville  
Alcona County, Michigan

We have audited the accompanying general purpose financial statements of the City of Harrisville, Alcona County, Michigan, as of and for the year ended March 31, 2004, as listed in the index. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 2, the general purpose financial statements referred to in the first paragraph do not include financial statements of the General Fixed Assets Group of Accounts which should be included to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the General Fixed Assets Group of Accounts is not known.

In our opinion, except for the effects on the general purpose financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Harrisville, Alcona County, Michigan, as of March 31, 2004, and the results of its operations and its cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2004, on our consideration of the City of Harrisville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Stephenson, Gracik & Co., P.C.*

CITY OF HARRISVILLE  
Alcona County, Michigan

COMBINED BALANCE SHEET -  
ALL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT  
March 31, 2004

|   | <u>Governmental Fund Types</u> |                            | <u>Proprietary Fund Types</u> |                     | <u>Fiduciary<br/>Fund Types</u> | <u>Totals<br/>(Memorandum Only)</u> | <u>Component<br/>Unit</u>                | <u>Totals<br/>(Memorandum Only)</u> |
|---|--------------------------------|----------------------------|-------------------------------|---------------------|---------------------------------|-------------------------------------|--|-------------------------------------|
|   | <u>General</u>                 | <u>Special<br/>Revenue</u> | <u>Internal<br/>Service</u>   | <u>Enterprise</u>   | <u>Trust and<br/>Agency</u>     | <u>Primary<br/>Government</u>       | <u>Harrisville<br/>Harbor Commission</u> | <u>Reporting<br/>Entity</u>         |
| <b><u>ASSETS</u></b>                      |                                |                            |                               |                     |                                 |                                     |  |                                     |
| Cash (Note 3)                             | \$ 17,173                      | \$ 60,435                  | \$ 0                          | \$ 24,125           | \$ 12                           | \$ 101,745                          | \$ 137,275                               | \$ 239,020                          |
| Certificates of deposit (Note 3)          | 174,015                        | 181,984                    | 16,874                        | 184,328             | 0                               | 557,201                             | 0  | 557,201                             |
| Investments (Note 3)                      | 137,593                        | 125,850                    | 41,025                        | 193,727             | 274                             | 498,469                             | 0  | 498,469                             |
| Receivables:                              |                                |                            |                               |                     |                                 |                                     |  |                                     |
| Taxes                                     | 12,649                         | 0                          | 0                             | 0                   | 0                               | 12,649                              | 0  | 12,649                              |
| Accounts                                  | 0                              | 0                          | 0                             | 39,124              | 0                               | 39,124                              | 30                                       | 39,154                              |
| Due from other funds (Note 5)             | 9,199                          | 0                          | 0                             | 0                   | 0                               | 9,199                               | 0  | 9,199                               |
| Inventory                                 | 0                              | 0                          | 0                             | 0                   | 0                               | 0                                   | 9,350                                    | 9,350                               |
| Property, plant and equipment (Note 7)    | 0                              | 0                          | 144,626                       | 2,793,973           | 0                               | 2,938,599                           | 1,837,185                                | 4,775,784                           |
| Accumulated depreciation (Note 7)         | 0                              | 0                          | (114,890)                     | (1,274,955)         | 0                               | (1,389,845)                         | (521,525)                                | (1,911,370)                         |
| Total Assets                              | <u>\$ 350,629</u>              | <u>\$ 368,269</u>          | <u>\$ 87,635</u>              | <u>\$ 1,960,322</u> | <u>\$ 286</u>                   | <u>\$ 2,767,141</u>                 | <u>\$ 1,462,315</u>                      | <u>\$ 4,229,456</u>                 |
| <b><u>LIABILITIES AND FUND EQUITY</u></b> |                                |                            |                               |                     |                                 |                                     |  |                                     |
| <b><u>Liabilities</u></b>                 |                                |                            |                               |                     |                                 |                                     |  |                                     |
| Accounts payable                          | \$ 0                           | \$ 7,275                   | \$ 0                          | \$ 0                | \$ 0                            | \$ 7,275                            | \$ 0                                     | \$ 7,275                            |
| Accrued liabilities                       | 0                              | 0                          | 0                             | 0                   | 87                              | 87                                  | 987                                      | 1,074                               |
| Due to other funds (Note 5)               | 0                              | 0                          | 0                             | 9,000               | 199                             | 9,199                               | 0  | 9,199                               |
| Bonds payable (Note 8)                    | 0                              | 0                          | 0                             | 522,000             | 0                               | 522,000                             | 0  | 522,000                             |
| Contract payable - county (Note 8)        | 0                              | 0                          | 0                             | 230,000             | 0                               | 230,000                             | 0  | 230,000                             |
| Total liabilities                         | <u>0</u>                       | <u>7,275</u>               | <u>0</u>                      | <u>761,000</u>      | <u>286</u>                      | <u>768,561</u>                      | <u>987</u>                               | <u>769,548</u>                      |
| <b><u>Fund Equity</u></b>                 |                                |                            |                               |                     |                                 |                                     |  |                                     |
| Contributed capital - net                 | 0                              | 0                          | 0                             | 720,273             | 0                               | 720,273                             | 868,348                                  | 1,588,621                           |
| Retained earnings                         | 0                              | 0                          | 87,635                        | 479,049             | 0                               | 566,684                             | 592,980                                  | 1,159,664                           |
| Fund balances:                            |                                |                            |                               |                     |                                 |                                     |  |                                     |
| Unreserved:                               |                                |                            |                               |                     |                                 |                                     |  |                                     |
| Designated for streets                    | 5,598                          | 0                          | 0                             | 0                   | 0                               | 5,598                               | 0  | 5,598                               |
| Undesignated                              | 345,031                        | 360,994                    | 0                             | 0                   | 0                               | 706,025                             | 0  | 706,025                             |
| Total fund equity                         | <u>350,629</u>                 | <u>360,994</u>             | <u>87,635</u>                 | <u>1,199,322</u>    | <u>0</u>                        | <u>1,998,580</u>                    | <u>1,461,328</u>                         | <u>3,459,908</u>                    |
| Total Liabilities and Fund Equity         | <u>\$ 350,629</u>              | <u>\$ 368,269</u>          | <u>\$ 87,635</u>              | <u>\$ 1,960,322</u> | <u>\$ 286</u>                   | <u>\$ 2,767,141</u>                 | <u>\$ 1,462,315</u>                      | <u>\$ 4,229,456</u>                 |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
For the Year Ended March 31, 2004

|   | <u>General</u>    | <u>Special<br/>Revenue</u> | <u>Totals<br/>(Memorandum Only)</u> |
|---|-------------------|----------------------------|-------------------------------------|
| <u>Revenue</u>  |                   |                            |                                     |
| Taxes   | \$ 86,438         | \$ 0                       | \$ 86,438                           |
| Licenses and permits  | 125               | 0                          | 125                                 |
| Federal revenue   | 0                 | 58,860                     | 58,860                              |
| State revenue   | 46,805            | 45,950                     | 92,755                              |
| Contributions   | 3,540             | 26,843                     | 30,383                              |
| Charges for services  | 84                | 5,500                      | 5,584                               |
| Interest earned   | 5,373             | 2,744                      | 8,117                               |
| Rents   | 6,600             | 0                          | 6,600                               |
| Fines and forfeitures   | 125               | 0                          | 125                                 |
| Refunds and reimbursements  | 12,474            | 0                          | 12,474                              |
| Other   | 778               | 697                        | 1,475                               |
| Total revenue   | <u>162,342</u>    | <u>140,594</u>             | <u>302,936</u>                      |
| <u>Expenditures</u>   |                   |                            |                                     |
| Current:  |                   |                            |                                     |
| General government  | 78,282            | 0                          | 78,282                              |
| Public safety   | 5,400             | 97,457                     | 102,857                             |
| Public works  | 11,614            | 39,352                     | 50,966                              |
| Recreation and cultural   | 25,268            | 0                          | 25,268                              |
| Other   | 18,425            | 0                          | 18,425                              |
| Capital outlay  | 3,126             | 0                          | 3,126                               |
| Total expenditures  | <u>142,115</u>    | <u>136,809</u>             | <u>278,924</u>                      |
| Excess of revenue over expenditures                                     | <u>20,227</u>     | <u>3,785</u>               | <u>24,012</u>                       |
| <u>Other Financing Sources (Uses)</u>                                   |                   |                            |                                     |
| Operating transfers in  | 0                 | 19,892                     | 19,892                              |
| Operating transfers out   | <u>(12,092)</u>   | <u>(7,800)</u>             | <u>(19,892)</u>                     |
| Total other financing sources (uses)                                    | <u>(12,092)</u>   | <u>12,092</u>              | <u>0</u>                            |
| Excess of revenue and other sources<br>over expenditures and other uses | 8,135             | 15,877                     | 24,012                              |
| Fund balances - beginning of year                                       | <u>342,494</u>    | <u>345,117</u>             | <u>687,611</u>                      |
| Fund balances - end of year   | <u>\$ 350,629</u> | <u>\$ 360,994</u>          | <u>\$ 711,623</u>                   |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND  
BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS  
For the Year Ended March 31, 2004

|   | General    |            |  | Special Revenue |            |  | Totals (Memorandum Only) |            |  |
|---|------------|------------|--|-----------------|------------|--|--------------------------|------------|--|
|   | Budget     | Actual     | Variance -<br>Favorable<br>(Unfavorable) | Budget          | Actual     | Variance -<br>Favorable<br>(Unfavorable) | Budget                   | Actual     | Variance -<br>Favorable<br>(Unfavorable) |
| <u>Revenue</u>  |            |            |  |                 |            |  |                          |            |  |
| Taxes   | \$ 82,770  | \$ 86,438  | \$ 3,668                                 | \$ 0            | \$ 0       | \$ 0                                     | \$ 82,770                | \$ 86,438  | \$ 3,668                                 |
| Licenses and permits  | 100        | 125        | 25                                       | 0               | 0          | 0  | 100                      | 125        | 25                                       |
| Federal revenue   | 0          | 0          | 0  | 58,860          | 58,860     | 0  | 58,860                   | 58,860     | 0  |
| State revenue   | 46,805     | 46,805     | 0  | 45,850          | 45,950     | 100                                      | 92,655                   | 92,755     | 100                                      |
| Contributions   | 3,500      | 3,540      | 40                                       | 29,466          | 26,843     | (2,623)                                  | 32,966                   | 30,383     | (2,583)                                  |
| Charges for services  | 84         | 84         | 0  | 5,500           | 5,500      | 0  | 5,584                    | 5,584      | 0  |
| Interest earned   | 3,700      | 5,373      | 1,673                                    | 600             | 2,744      | 2,144                                    | 4,300                    | 8,117      | 3,817                                    |
| Rents   | 6,600      | 6,600      | 0  | 0               | 0          | 0  | 6,600                    | 6,600      | 0  |
| Fines and forfeitures   | 75         | 125        | 50                                       | 0               | 0          | 0  | 75                       | 125        | 50                                       |
| Refunds and reimbursements  | 12,425     | 12,474     | 49                                       | 0               | 0          | 0  | 12,425                   | 12,474     | 49                                       |
| Other   | 778        | 778        | 0  | 636             | 697        | 61                                       | 1,414                    | 1,475      | 61                                       |
| Total revenue   | 156,837    | 162,342    | 5,505                                    | 140,912         | 140,594    | (318)                                    | 297,749                  | 302,936    | 5,187                                    |
| <u>Expenditures</u>   |            |            |  |                 |            |  |                          |            |  |
| Current:  |            |            |  |                 |            |  |                          |            |  |
| General government  | 79,707     | 78,282     | 1,425                                    | 0               | 0          | 0  | 79,707                   | 78,282     | 1,425                                    |
| Public safety   | 5,450      | 5,400      | 50                                       | 109,178         | 97,457     | 11,721                                   | 114,628                  | 102,857    | 11,771                                   |
| Public works  | 11,650     | 11,614     | 36                                       | 45,586          | 39,352     | 6,234                                    | 57,236                   | 50,966     | 6,270                                    |
| Recreation and cultural   | 25,581     | 25,268     | 313                                      | 0               | 0          | 0  | 25,581                   | 25,268     | 313                                      |
| Other   | 18,519     | 18,425     | 94                                       | 0               | 0          | 0  | 18,519                   | 18,425     | 94                                       |
| Capital outlay  | 3,130      | 3,126      | 4  | 0               | 0          | 0  | 3,130                    | 3,126      | 4  |
| Total expenditures  | 144,037    | 142,115    | 1,922                                    | 154,764         | 136,809    | 17,955                                   | 298,801                  | 278,924    | 19,877                                   |
| Excess of revenue over (under) expenditures                                     | 12,800     | 20,227     | 7,427                                    | (13,852)        | 3,785      | 17,637                                   | (1,052)                  | 24,012     | 25,064                                   |
| <u>Other Financing Sources (Uses)</u>   |            |            |  |                 |            |  |                          |            |  |
| Operating transfers in  | 0          | 0          | 0  | 21,652          | 19,892     | (1,760)                                  | 21,652                   | 19,892     | (1,760)                                  |
| Operating transfers out   | (15,800)   | (12,092)   | 3,708                                    | (7,800)         | (7,800)    | 0  | (23,600)                 | (19,892)   | 3,708                                    |
| Total other financing sources (uses)  | (15,800)   | (12,092)   | 3,708                                    | 13,852          | 12,092     | (1,760)                                  | (1,948)                  | 0          | 1,948                                    |
| Excess of revenue and other sources<br>over (under) expenditures and other uses | (3,000)    | 8,135      | 11,135                                   | 0               | 15,877     | 15,877                                   | (3,000)                  | 24,012     | 27,012                                   |
| Fund balances - beginning of year   | 342,494    | 342,494    | 0  | 345,117         | 345,117    | 0  | 687,611                  | 687,611    | 0  |
| Fund balances - end of year   | \$ 339,494 | \$ 350,629 | \$ 11,135                                | \$ 345,117      | \$ 360,994 | \$ 15,877                                | \$ 684,611               | \$ 711,623 | \$ 27,012                                |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES  
IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES  
AND DISCRETELY PRESENTED COMPONENT UNIT  
For the Year Ended March 31, 2004

|  | Internal<br>Service | Enterprise        | Totals<br>(Memorandum Only)<br>Primary<br>Government | Component<br>Unit<br>Harrisville<br>Harbor Commission | Totals<br>(Memorandum Only)<br>Reporting<br>Entity |
|--|---------------------|-------------------|--|---|--|
| <u>Operating Revenue</u>   |                     |                   |  |   |  |
| Charges for services   | \$ 25,792           | \$ 153,813        | \$ 179,605   | \$ 343,665  | \$ 523,270   |
| Permits  | 0                   | 5,270             | 5,270  | 0   | 5,270  |
| Service connection charges   | 0                   | 5,543             | 5,543  | 0   | 5,543  |
| Refunds  | 0                   | 114               | 114  | 0   | 114  |
| Other  | 0                   | 0                 | 0  | 5,898   | 5,898  |
| Total operating revenue  | <u>25,792</u>       | <u>164,740</u>    | <u>190,532</u>                                       | <u>349,563</u>  | <u>540,095</u>                                     |
| <u>Operating Expenses</u>  |                     |                   |  |   |  |
| Salaries and wages   | 4,542               | 25,876            | 30,418   | 92,010  | 122,428  |
| Employee benefits and payroll taxes  | 347                 | 7,500             | 7,847  | 13,050  | 20,897   |
| Fuel and other costs   | 3,088               | 0                 | 3,088  | 155,533   | 158,621  |
| Licenses and permits   | 0                   | 0                 | 0  | 525   | 525  |
| Office expense   | 0                   | 1,212             | 1,212  | 3,802   | 5,014  |
| Operating expense  | 740                 | 3,392             | 4,132  | 1,290   | 5,422  |
| Advertising  | 0                   | 0                 | 0  | 213   | 213  |
| Legal and accounting   | 0                   | 0                 | 0  | 2,350   | 2,350  |
| Telephone  | 0                   | 1,826             | 1,826  | 2,465   | 4,291  |
| Insurance  | 2,140               | 3,391             | 5,531  | 10,801  | 16,332   |
| Utilities  | 0                   | 4,405             | 4,405  | 11,979  | 16,384   |
| Professional fees  | 0                   | 8,943             | 8,943  | 4,208   | 13,151   |
| Repairs and maintenance  | 2,357               | 5,957             | 8,314  | 3,337   | 11,651   |
| Equipment rentals  | 0                   | 5,088             | 5,088  | 0   | 5,088  |
| Bank charges and fees  | 0                   | 0                 | 0  | 7,168   | 7,168  |
| State fees   | 0                   | 538               | 538  | 0   | 538  |
| Taxes:   |                     |                   |  |   |  |
| Sales  | 0                   | 0                 | 0  | 5,097   | 5,097  |
| Fuel   | 0                   | 0                 | 0  | 6,411   | 6,411  |
| Travel   | 0                   | 0                 | 0  | 442   | 442  |
| Miscellaneous  | 0                   | 1,961             | 1,961  | 0   | 1,961  |
| Refuse service   | 0                   | 0                 | 0  | 775   | 775  |
| Depreciation   | 12,323              | 64,607            | 76,930   | 54,200  | 131,130  |
| Other  | 0                   | 0                 | 0  | 848   | 848  |
| Total operating expenses   | <u>25,537</u>       | <u>134,696</u>    | <u>160,233</u>                                       | <u>376,504</u>  | <u>536,737</u>                                     |
| Operating income (loss)  | <u>255</u>          | <u>30,044</u>     | <u>30,299</u>  | <u>(26,941)</u>                                       | <u>3,358</u>                                       |
| <u>Non-operating Revenue (Expenses)</u>  |                     |                   |  |   |  |
| Property taxes   | 0                   | 39,636            | 39,636   | 0   | 39,636   |
| Interest on investments  | 560                 | 7,374             | 7,934  | 845   | 8,779  |
| Gain on sale of equipment  | 1,500               | 0                 | 1,500  | 0   | 1,500  |
| Interest expense   | 0                   | (38,675)          | (38,675)   | 0   | (38,675)   |
| Total non-operating revenue (expenses)   | <u>2,060</u>        | <u>8,335</u>      | <u>10,395</u>  | <u>845</u>  | <u>11,240</u>                                      |
| Net income (loss)  | 2,315               | 38,379            | 40,694   | (26,096)  | 14,598   |
| Add depreciation on fixed assets acquired by grants,<br>entitlements and shared revenue externally restricted<br>for capital acquisitions and construction that reduces<br>contributed capital | <u>0</u>            | <u>24,127</u>     | <u>24,127</u>  | <u>20,338</u>   | <u>44,465</u>                                      |
| Net increase (decrease) in retained earnings   | 2,315               | 62,506            | 64,821   | (5,758)   | 59,063   |
| Retained earnings - beginning of year  | <u>85,320</u>       | <u>416,543</u>    | <u>501,863</u>                                       | <u>598,738</u>  | <u>1,100,601</u>                                   |
| Retained earnings - end of year  | <u>\$ 87,635</u>    | <u>\$ 479,049</u> | <u>\$ 566,684</u>                                    | <u>\$ 592,980</u>                                     | <u>\$ 1,159,664</u>                                |

The accompanying notes to financial statements are an integral part of this statement.



CITY OF HARRISVILLE  
Alcona County, Michigan

COMBINED STATEMENT OF CASH FLOWS -  
ALL PROPRIETARY FUND TYPES  
AND DISCRETELY PRESENTED COMPONENT UNIT  
For the Year Ended March 31, 2004

|   |                     |                   | Totals -<br>(Memorandum<br>Only) | Component<br>Unit<br>Harrisville<br>Harbor<br>Commission | Totals -<br>(Memorandum<br>Only) |
|---|---------------------|-------------------|----------------------------------|--|----------------------------------|
|   | Internal<br>Service | Enterprise        | Primary<br>Government            |  | Reporting<br>Entity              |
| <u>Cash Flows From Operating Activities</u>                     |                     |                   |                                  |  |                                  |
| Cash received from customers                                    | \$ 25,792           | \$ 163,611        | \$ 189,403                       | \$ 349,533   | \$ 538,936                       |
| Cash paid to suppliers and employees                            | (13,214)            | (70,089)          | (83,303)                         | (314,480)  | (397,783)                        |
| Interest received   | 0                   | 299               | 299                              | 845  | 1,144                            |
| Refunds   | 0                   | 114               | 114                              | 0  | 114                              |
| Net cash provided by operating activities (Note 9)              | <u>12,578</u>       | <u>93,935</u>     | <u>106,513</u>                   | <u>35,898</u>  | <u>142,411</u>                   |
| <u>Cash Flows From Noncapital Financing Activities</u>          |                     |                   |                                  |  |                                  |
| Property taxes received   | 0                   | 39,636            | 39,636                           | 0  | 39,636                           |
| Cash paid to other funds  | 0                   | (5,000)           | (5,000)                          | 0  | (5,000)                          |
| Net cash provided by noncapital financing activities            | <u>0</u>            | <u>34,636</u>     | <u>34,636</u>                    | <u>0</u>   | <u>34,636</u>                    |
| <u>Cash Flows From Capital and Related Financing Activities</u> |                     |                   |                                  |  |                                  |
| Proceeds from sale of property, plant and equipment             | 1,500               | 0                 | 1,500                            | 0  | 1,500                            |
| State contributions   | 0                   | 0                 | 0                                | 19,450   | 19,450                           |
| Purchase of property, plant and equipment                       | (24,885)            | (30,588)          | (55,473)                         | (38,458)   | (93,931)                         |
| Principal paid on contract payable - county                     | 0                   | (17,000)          | (17,000)                         | 0  | (17,000)                         |
| Principal paid on bonds payable                                 | 0                   | (9,000)           | (9,000)                          | 0  | (9,000)                          |
| Interest paid on contract and bonds                             | 0                   | (38,675)          | (38,675)                         | 0  | (38,675)                         |
| Net cash used by capital and related financing activities       | <u>(23,385)</u>     | <u>(95,263)</u>   | <u>(118,648)</u>                 | <u>(19,008)</u>  | <u>(137,656)</u>                 |
| <u>Cash Flows From Investing Activities</u>                     |                     |                   |                                  |  |                                  |
| Interest on investments   | <u>0</u>            | <u>1,414</u>      | <u>1,414</u>                     | <u>0</u>   | <u>1,414</u>                     |
| Net increase (decrease) in cash and cash equivalents (Note 1)   | (10,807)            | 34,722            | 23,915                           | 16,890   | 40,805                           |
| Cash and cash equivalents at beginning of year                  | <u>51,832</u>       | <u>183,130</u>    | <u>234,962</u>                   | <u>120,385</u>   | <u>355,347</u>                   |
| Cash and cash equivalents at end of year                        | <u>\$ 41,025</u>    | <u>\$ 217,852</u> | <u>\$ 258,877</u>                | <u>\$ 137,275</u>  | <u>\$ 396,152</u>                |
| <u>Supplemental Disclosure of Cash Flow Information</u>         |                     |                   |                                  |  |                                  |
| Deposit and investment balances per balance sheet:              |                     |                   |                                  |  |                                  |
| Cash  | \$ 0                | \$ 24,125         | \$ 24,125                        | \$ 137,275   | \$ 161,400                       |
| Investments recognized as cash equivalents                      | <u>41,025</u>       | <u>193,727</u>    | <u>234,752</u>                   | <u>0</u>   | <u>234,752</u>                   |
|   | 41,025              | 217,852           | 258,877                          | 137,275  | 396,152                          |
| Non-cash equivalent certificates of deposit                     | <u>16,874</u>       | <u>184,328</u>    | <u>201,202</u>                   | <u>0</u>   | <u>201,202</u>                   |
| Total deposits and investments per balance sheet                | <u>\$ 57,899</u>    | <u>\$ 402,180</u> | <u>\$ 460,079</u>                | <u>\$ 137,275</u>  | <u>\$ 597,354</u>                |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of City Operations and Reporting Entity

The City of Harrisville operates under an elected City Council (ten members) and provides services to its residents in many areas including fire protection, street maintenance, and water and sewer services. The financial statements of the City of Harrisville have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary Funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

Education services are provided to citizens through the local school district which is a separate governmental entity.

B. Discretely Presented Component Unit

The component unit column in the combined financial statements represents the financial data of the Harrisville Harbor Commission. The Harrisville Harbor Commission is reported in a separate column to emphasize that it is legally separate from the City. The governing body of this component unit is appointed by the City Council. The Harbor Commission uses a December 31, 2003 year end which is what is presented in these financial statements. Complete financial statements for the Harrisville Harbor Commission can be obtained from the City of Harrisville's Clerk's office.

C. Blended Component Units

The City of Harrisville Water and Sewer Funds are reported as if they were part of the primary government because the governing body of the Water and Sewer Funds is the same as the primary government's. The financial activities of the Water and Sewer Funds are recorded in Enterprise Funds. The Water and Sewer Funds use a December 31, 2003 year end which is what is presented in these financial statements. Complete financial statements for the Water and Sewer Funds can be obtained from the City Clerk's office.

D. Basis of Presentation

The financial activities of the City of Harrisville are recorded in separate funds and account groups, categorized and described as follows:

1. Governmental Funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state distributions, grants and other intergovernmental revenue.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

1. Governmental Funds: (Continued)

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

2. Proprietary Funds:

Internal Service Fund - This fund is used to record the financing of equipment usage provided by the local unit to other departments and funds.

Enterprise Funds - These funds are used to account for the expenditures incurred and revenues earned from the sale of water and sewer services.

3. Fiduciary Funds:

These funds, used to account for assets held in trust or as an agent for others, include the Tax Collection Fund and Agency Funds.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Continued)

The accrual basis of accounting is used by the Proprietary Funds. The financial activity of the Agency Funds is limited to collection of amounts which are subsequently returned or paid to third parties and, accordingly, are limited to cash transactions. All governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

1. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

For the current year, the taxable value for properties located within the City was \$13,486,650. The tax rates were 6.1983 mills for operations and 3.1 mills for debt retirement.

2. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
3. Normally, expenditures are not divided between years by the recording of prepaid expenses.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

G. Budgets and Budgetary Accounting

The City normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City Clerk submits to the City Council a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the City Council.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the City Council.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Fund Equity

Interfund Receivable s-Payables:

Interfund receivables and payables have not been eliminated in the preparation of the Combined Balance Sheet (EXHIBIT A). Operating transfers in and out have not been offset in the preparation of the Combined Statement of Revenue, Expenditure s and Changes in Fund Balances (EXHIBITS B and C).

Fixed Assets and Depreciation:

Proprietary Funds - Property, plant and equipment is stated at cost. Depreciation has been provided using the straight line method over the estimated useful life of the assets.

Fixed Assets - Fixed assets are recorded as expenditures at the time of purchase, except in the Proprietary Funds.

Contributed Capital - Contributed capital in the proprietary funds consists of federal, state, and local grants utilized in the construction of fixed assets. Contributed capital is being amortized.

Inventories – Inventories consisting entirely of gasoline and diesel fuel are valued at the lower of cost or market, with cost determined on a first-in, first-out basis.

Discretely Presented Component Unit – Harbor Commission – Enterprise Fund - Fixed assets are stated at cost. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Provision for depreciation is computed by the straight-line method. Depreciation in respect to assets purchased by the State and City is reflected as a reduction of contributed capital in the financial statements.

I. Revenues, Expenditures and Expenses

1. Property tax revenue is recognized when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period.
2. Revenue from the sale of City services and assessments is recorded when billed. All other revenue is recognized when collected in cash.
3. Payrolls and other costs are recognized as incurred.

J. Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. Therefore cash and cash equivalents include checking and savings accounts and the municipal investment fund.

NOTE 2 - FUND OMITTED

The City of Harrisville does not maintain records for General Fixed Assets. Therefore, this fund has not been included in the financial statements.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS

The captions on the financial statements for the deposit and investment accounts are as follows:

|                                   | <u>Deposits</u>   | <u>Investments</u> | <u>Total</u>        |
|-----------------------------------|-------------------|--------------------|---------------------|
| <u>Primary Government</u>         |                   |                    |                     |
| Cash                              | \$ 101,745        | \$ 0               | \$ 101,745          |
| Certificates of deposit           | 557,201           | 0                  | 557,201             |
| Investments                       | <u>0</u>          | <u>498,469</u>     | <u>498,469</u>      |
| Total primary government          | <u>658,946</u>    | <u>498,469</u>     | <u>1,157,415</u>    |
| <u>Component Unit</u>             |                   |                    |                     |
| Cash                              | 137,275           | 0                  | 137,275             |
| Less: Petty cash included in cash | <u>(200)</u>      | <u>0</u>           | <u>(200)</u>        |
| Total component unit              | <u>137,075</u>    | <u>0</u>           | <u>137,075</u>      |
| Total reporting entity            | <u>\$ 796,021</u> | <u>\$ 498,469</u>  | <u>\$ 1,294,490</u> |
| <u>Reporting Entity</u>           |                   |                    |                     |
| Cash                              |                   |                    | \$ 239,020          |
| Certificates of deposit           |                   |                    | 557,201             |
| Investments                       |                   |                    | 498,469             |
| Less: Petty cash included in cash |                   |                    | <u>(200)</u>        |
|                                   |                   |                    | <u>\$ 1,294,490</u> |

Deposits:

Deposits are carried at cost. Deposits of the City are held at various banks in the name of the City Treasurer. At year end, the carrying amounts of the City's deposits were classified as to risk as follows:

|                                 | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|---------------------------------|------------------------|---------------------|
| <u>Primary Government</u>       |                        |                     |
| Insured (FDIC)                  | \$ 304,022             | \$ 305,022          |
| Uninsured – uncollateralized    | <u>354,924</u>         | <u>354,924</u>      |
| Total primary government        | <u>658,946</u>         | <u>659,946</u>      |
| <u>Component Unit</u>           |                        |                     |
| Insured (FDIC)                  | 101,885                | 102,787             |
| Uninsured - uncollateralized    | <u>35,190</u>          | <u>35,190</u>       |
| Total component unit            | <u>137,075</u>         | <u>137,977</u>      |
| Total deposits reporting entity | <u>\$ 796,021</u>      | <u>\$ 797,923</u>   |

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments:

The City Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- \* Accounts of federally insured banks, credit unions and savings and loan associations
- \* Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- \* United States government or federal agency obligation repurchase agreements
- \* Banker's acceptances of United States banks
- \* Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- \* Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits and investments are in accordance with statutory authority.

The City's investments are categorized to give an indication of the level of risk assumed by the City at March 31, 2004. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

All investments at March 31, 2004 consisted of the following which are not required to be categorized:

|                                    | <u>Carrying<br/>Amount</u> | <u>Market<br/>Value</u> |
|------------------------------------|----------------------------|-------------------------|
| <u>Nonrisk Categorized</u>         |                            |                         |
| Financial institution pooled funds | <u>\$ 498,469</u>          | <u>\$ 498,469</u>       |

NOTE 4 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. No liabilities were due as of March 31, 2004.

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of March 31, 2004 were as follows:

| <u>Fund</u>  | <u>Interfund<br/>Receivable</u> | <u>Fund</u>                 | <u>Interfund<br/>Payable</u> |
|--------------|---------------------------------|-----------------------------|------------------------------|
| General Fund | \$ 199                          | Current Tax Collection Fund | \$ 199                       |
| General Fund | <u>9,000</u>                    | Sewer Fund                  | <u>9,000</u>                 |
|              | <u>\$ 9,199</u>                 |                             | <u>\$ 9,199</u>              |

NOTE 6 - UNPAID VACATION AND SICK PAY

There is no unpaid vacation and sick pay at March 31, 2004.

NOTE 7 - FIXED ASSETS

Proprietary Fund Type - Internal Service and Enterprise Funds

A summary of proprietary fund type fixed assets for the year ended March 31, 2004 follows:

|                                   | <u>Internal<br/>Service</u> | <u>Enterprise</u>   | <u>Total<br/>Primary<br/>Government</u> |
|-----------------------------------|-----------------------------|---------------------|---|
| <u>Primary Government</u>         |                             |                     |   |
| Land                              | \$ 0                        | \$ 18,000           | \$ 18,000                               |
| Plant                             | 0                           | 2,716,812           | 2,716,812                               |
| Machinery and equipment           | <u>144,626</u>              | <u>59,161</u>       | <u>203,787</u>                          |
|                                   | 144,626                     | 2,793,973           | 2,938,599                               |
| Less accumulated depreciation     | <u>114,890</u>              | <u>1,274,955</u>    | <u>1,389,845</u>                        |
| Net property, plant and equipment | <u>\$ 29,736</u>            | <u>\$ 1,519,018</u> | <u>\$ 1,548,754</u>                     |

The City's fixed assets are stated at cost. Depreciation is calculated using straight line basis at various rates depending on their useful life. The estimated useful lives are as follows:

|                         |             |
|-------------------------|-------------|
| Plant                   | 30-75 years |
| Machinery and equipment | 5-10 years  |



CITY OF HARRISVILLE  
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004NOTE 7 - FIXED ASSETS (CONTINUED)Proprietary Fund Type - Internal Service and Enterprise Funds (Continued)Component Unit

The following is a summary of the proprietary type fixed assets of the Harrisville Harbor Commission as of December 31, 2003:

|                                   |                     |
|-----------------------------------|---------------------|
| Land improvements                 | \$ 175,804          |
| Buildings and docks               | 1,268,800           |
| Machinery and equipment           | <u>392,581</u>      |
|                                   | 1,837,185           |
| Less accumulated depreciation     | <u>(521,525)</u>    |
| Net property, plant and equipment | <u>\$ 1,315,660</u> |

NOTE 8 - LONG TERM DEBT - BLENDED COMPONENT UNIT\$615,000 General Obligation Water Supply System Bond Dated September 14, 1989

Said bonds are issued pursuant to the resolutions adopted by the City council of the City of Harrisville for the purpose of the construction of a water supply system and improvements.

These bonds constitute a valid and legally binding obligation of the City of Harrisville, payable from ad valorem taxes assessed in the City, and payable from net revenues of said water supply system collected from the users of such system through use charges pursuant to the ordinances of the City of Harrisville.

The bonds, which bear interest at 5%, are due serially through 2029, payable on July 1, with interest due semi-annually on January 1 and July 1 of each year.

Annual Principal and Interest Requirements

| <u>Fiscal Year</u> | <u>January 1 Interest</u> | <u>July 1 Principal</u> | <u>July 1 Interest</u> | <u>Total Future Annual Requirements</u> |
|--------------------|---------------------------|-------------------------|------------------------|---|
| 2004               | \$ 0                      | \$ 10,000               | \$ 13,050              | \$ 23,050                               |
| 2005               | 12,800                    | 11,000                  | 12,800                 | 36,600                                  |
| 2006               | 12,525                    | 11,000                  | 12,525                 | 36,050                                  |
| 2007               | 12,250                    | 12,000                  | 12,250                 | 36,500                                  |
| 2008               | 11,950                    | 12,000                  | 11,950                 | 35,900                                  |
| 2009               | 11,650                    | 13,000                  | 11,650                 | 36,300                                  |
| 2010               | 11,325                    | 14,000                  | 11,325                 | 36,650                                  |
| 2011               | 10,975                    | 14,000                  | 10,975                 | 35,950                                  |
| 2012               | 10,625                    | 15,000                  | 10,625                 | 36,250                                  |
| 2013               | 10,250                    | 16,000                  | 10,250                 | 36,500                                  |
| 2014               | 9,850                     | 17,000                  | 9,850                  | 36,700                                  |
| 2015               | 9,425                     | 17,000                  | 9,425                  | 35,850                                  |
| 2016               | 9,000                     | 18,000                  | 9,000                  | 36,000                                  |

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 8 - LONG TERM DEBT - BLENDED COMPONENT UNIT (CONTINUED)

\$615,000 General Obligation Water Supply System Bond Dated September 14, 1989 (Continued)

| <u>Fiscal Year</u> | <u>January 1 Interest</u> | <u>July 1 Principal</u> | <u>July 1 Interest</u> | <u>Total Future Annual Requirements</u> |
|--------------------|---------------------------|-------------------------|------------------------|---|
| 2017               | \$ 8,550                  | \$ 19,000               | \$ 8,550               | \$ 36,100                               |
| 2018               | 8,075                     | 20,000                  | 8,075                  | 36,150                                  |
| 2019               | 7,575                     | 21,000                  | 7,575                  | 36,150                                  |
| 2020               | 7,050                     | 22,000                  | 7,050                  | 36,100                                  |
| 2021               | 6,500                     | 23,000                  | 6,500                  | 36,000                                  |
| 2022               | 5,925                     | 25,000                  | 5,925                  | 36,850                                  |
| 2023               | 5,300                     | 26,000                  | 5,300                  | 36,600                                  |
| 2024               | 4,650                     | 27,000                  | 4,650                  | 36,300                                  |
| 2025               | 3,975                     | 29,000                  | 3,975                  | 36,950                                  |
| 2026               | 3,250                     | 30,000                  | 3,250                  | 36,500                                  |
| 2027               | 2,500                     | 32,000                  | 2,500                  | 37,000                                  |
| 2028               | 1,700                     | 33,000                  | 1,700                  | 36,400                                  |
| 2029               | <u>875</u>                | <u>35,000</u>           | <u>875</u>             | <u>36,750</u>                           |
|                    | <u>\$ 198,550</u>         | <u>\$ 522,000</u>       | <u>\$ 211,600</u>      | <u>\$ 932,150</u>                       |

\$462,000 Contract Payable - County, Dated March 5, 1976

The City of Harrisville entered into a contract with the County of Alcona, through its Board of Public Works, to finance a portion of the costs for sewage collection and treatment facilities. The City also enacted Ordinance No. 75-1 authorizing the sale of revenue bonds by the County.

Pursuant to Act No. 185, Public Acts of Michigan, 1957, the City has irrevocably pledged its full faith and credit for the payment of this issue. If revenues are insufficient to cover annual obligations, the City shall levy an ad valorem tax to pay these obligations.

Ordinance No. 75-1 requires the establishment of certain funds and accounts. A Receiving Fund is to be used for all incoming revenue. This account has been established. A Bond Reserve Account is to be opened whereby at least \$250 per quarter is to be deposited until there is accumulated the sum of \$30,000. All bonds carry interest at 5%.

Annual Principal and Interest Requirements

| <u>Fiscal Year</u> | <u>June 30 Interest</u> | <u>December 31 Principal</u> | <u>December 31 Interest</u> | <u>Total Future Annual Requirements</u> |
|--------------------|-------------------------|------------------------------|-----------------------------|---|
| 2004               | \$ 5,750                | \$ 17,000                    | \$ 5,750                    | \$ 28,500                               |
| 2005               | 5,325                   | 18,000                       | 5,325                       | 28,650                                  |
| 2006               | 4,875                   | 19,000                       | 4,875                       | 28,750                                  |
| 2007               | 4,400                   | 20,000                       | 4,400                       | 28,800                                  |
| 2008               | 3,900                   | 21,000                       | 3,900                       | 28,800                                  |

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 8 - LONG TERM DEBT - BLENDED COMPONENT UNIT (CONTINUED)

\$462,000 Contract Payable - County, Dated March 5, 1976 (Continued)

| <u>Fiscal Year</u> | <u>June 30 Interest</u> | <u>December 31 Principal</u> | <u>December 31 Interest</u> | <u>Total Future Annual Requirements</u> |
|--------------------|-------------------------|------------------------------|-----------------------------|---|
| 2009               | \$ 3,375                | \$ 22,000                    | \$ 3,375                    | \$ 28,750                               |
| 2010               | 2,825                   | 22,000                       | 2,825                       | 27,650                                  |
| 2011               | 2,275                   | 22,000                       | 2,275                       | 26,550                                  |
| 2012               | 1,725                   | 22,000                       | 1,725                       | 25,450                                  |
| 2013               | 1,175                   | 22,000                       | 1,175                       | 24,350                                  |
| 2014               | <u>625</u>              | <u>25,000</u>                | <u>625</u>                  | <u>26,250</u>                           |
|                    | <u>\$ 36,250</u>        | <u>\$ 230,000</u>            | <u>\$ 36,250</u>            | <u>\$ 302,500</u>                       |

The annual principal and interest requirements for the years ending December 31, 2004 through 2008 for all debts outstanding as of December 31, 2003 are as follows:

|   | <u>2004</u>      | <u>2005</u>      | <u>2006</u>      | <u>2007</u>      | <u>2008</u>      |
|---|------------------|------------------|------------------|------------------|------------------|
| General obligation                        | \$ 23,050        | \$ 36,600        | \$ 36,050        | \$ 36,500        | \$ 35,900        |
| Contract payable                          | <u>28,500</u>    | <u>28,650</u>    | <u>28,750</u>    | <u>28,800</u>    | <u>28,800</u>    |
| Total principal and interest requirements | <u>\$ 51,550</u> | <u>\$ 65,250</u> | <u>\$ 64,800</u> | <u>\$ 65,300</u> | <u>\$ 64,700</u> |

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2003:

|                                      | <u>General Obligation Bonds</u> | <u>Contracts Payable</u> | <u>Total</u>      |
|--------------------------------------|---------------------------------|--------------------------|-------------------|
| Balance payable at January 1, 2003   | \$ 531,000                      | \$ 247,000               | \$ 778,000        |
| Retirements                          | <u>( 9,000)</u>                 | <u>(17,000)</u>          | <u>(26,000)</u>   |
| Balance payable at December 31, 2003 | <u>\$ 522,000</u>               | <u>\$ 230,000</u>        | <u>\$ 752,000</u> |

CITY OF HARRISVILLE  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 9 - RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

|  | Internal<br>Service | Enterprise       | Totals<br>(Memorandum<br>Only)<br>Primary<br>Government | Component<br>Unit<br>Harrisville Harbor<br>Commission | Totals<br>(Memorandum<br>Only)<br>Reporting<br>Entity |
|--|---------------------|------------------|---|---|---|
| Operating income (loss)  | \$ 255              | \$ 30,044        | \$ 30,299   | \$ (26,941)   | \$ 3,358  |
| Adjustments to reconcile operating<br>income (loss) to net cash provided<br>by operating activities: |                     |                  |   |   |   |
| Interest received  | 0                   | 299              | 299   | 845   | 1,144   |
| Depreciation   | 12,323              | 64,607           | 76,930  | 54,200  | 131,130   |
| Changes in assets and liabilities:   |                     |                  |   |   |   |
| Increase in accounts receivable  | 0                   | (1,015)          | (1,015)   | (30)  | (1,045)   |
| Decrease in inventory  | 0                   | 0                | 0   | 7,675   | 7,675   |
| Increase in accounts payable   | 0                   | 0                | 0   | 161   | 161   |
| Decrease in accrued liabilities  | 0                   | 0                | 0   | (12)  | (12)  |
| Net cash provided by operating activities  | <u>\$ 12,578</u>    | <u>\$ 93,935</u> | <u>\$ 106,513</u>                                       | <u>\$ 35,898</u>                                      | <u>\$ 142,411</u>                                     |

NOTE 10 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND SIMILAR COMPONENT UNIT

Primary Government

The City of Harrisville maintains two Enterprise Funds which provide water and sewer services. Segment I information for these funds at December 31, 2003 follows:

|                      | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|----------------------|-------------------|-------------------|--------------|
| Operating revenue    | \$ 76,129         | \$ 88,611         | \$ 164,740   |
| Depreciation         | \$ 31,018         | \$ 33,589         | \$ 64,607    |
| Operating income     | \$ 4,025          | \$ 26,019         | \$ 30,044    |
| Property tax revenue | \$ 39,636         | \$ 0              | \$ 39,636    |
| Net income           | \$ 23,943         | \$ 14,436         | \$ 38,379    |
| Net working capital  | \$ 333,153        | \$ 99,151         | \$ 432,304   |
| Bonds payable        | \$ 522,000        | \$ 0              | \$ 522,000   |
| Contracts payable    | \$ 0              | \$ 230,000        | \$ 230,000   |
| Total equity         | \$ 805,380        | \$ 393,942        | \$ 1,199,322 |

Component Unit

For the year ended December 31, 2003 component unit segment information not included in the financial statements is as follows:

|                     | <u>Harrisville<br/>Harbor Commission</u> |
|---------------------|--|
| Net working capital | <u>\$ 145,668</u>                        |

CITY OF HARRISVILLE  
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004NOTE 11 - OPERATING TRANSFERS

Operating transfers in/out to other funds consist of the following:

| <u>Fund</u>          | <u>Operating<br/>Transfers In</u> | <u>Fund</u>       | <u>Operating<br/>Transfers Out</u> |
|----------------------|-----------------------------------|-------------------|------------------------------------|
| Minor Street Fund    | \$ 7,800                          | Major Street Fund | \$ 7,800                           |
| Fire Protection Fund | <u>12,092</u>                     | General Fund      | <u>12,092</u>                      |
|                      | <u>\$ 19,892</u>                  |                   | <u>\$ 19,892</u>                   |

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget allows to expend them.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation) and medical benefits provided to employees. The City has purchased commercial insurance for health insurance claims, and participates in the Michigan Townships' Participating Plan for claims relating to property, liability, wrongful acts, automobile, crime and inland marine and the Michigan Municipal workers compensation fund risk pool for claims relating to workers compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Townships' Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

The Michigan Municipal Workers Compensation Fund program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 13 - TOTAL COLUMN ON COMBINED STATEMENTS

The total column on the Combined Statements is captioned Memorandum Only to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 14 - NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The City is required to implement this standard for the fiscal year ending March 31, 2005. The City has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

### OTHER DATA

## REPORT ON OTHER DATA

May 6, 2004

Our audit was conducted for the purpose of forming an opinion on the March 31, 2004 general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules, Exhibits G through O, are presented for purposes of additional analysis and are not a required part of the 2004 general purpose financial statements of the City of Harrisville, Alcona County, Michigan. The information has been subjected to the auditing procedures applied in the audit of the 2004 general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2004 general purpose financial statements taken as a whole.

*Stephenson, Grunh & Co., P.C.*

CITY OF HARRISVILLE  
Alcona County, Michigan

GENERAL FUND  
 STATEMENT OF REVENUE - BUDGET AND ACTUAL  
For the Year Ended March 31, 2004

|                             | <u>Budget</u>            | <u>Actual</u>            | Variance -<br>Favorable<br>(Unfavorable) |
|-----------------------------|--------------------------|--------------------------|--|
| <u>Taxes</u>                |                          |                          |  |
| Current property taxes      | \$ 80,110                | \$ 83,583                | \$ 3,473                                 |
| Collection fees             | <u>2,660</u>             | <u>2,855</u>             | <u>195</u>                               |
|                             | <u>82,770</u>            | <u>86,438</u>            | <u>3,668</u>                             |
| Licenses and permits        | <u>100</u>               | <u>125</u>               | <u>25</u>                                |
| State revenue sharing       | <u>46,805</u>            | <u>46,805</u>            | <u>0</u>                                 |
| <u>Charges for Services</u> |                          |                          |  |
| Trailer park fees           | <u>84</u>                | <u>84</u>                | <u>0</u>                                 |
| Contributions               | <u>3,500</u>             | <u>3,540</u>             | <u>40</u>                                |
| <u>Other Revenue</u>        |                          |                          |  |
| Interest earned             | 3,700                    | 5,373                    | 1,673                                    |
| Rents                       | 6,600                    | 6,600                    | 0  |
| Fines and forfeitures       | 75                       | 125                      | 50                                       |
| Refunds and reimbursements  | 12,425                   | 12,474                   | 49                                       |
| Other                       | <u>778</u>               | <u>778</u>               | <u>0</u>                                 |
|                             | <u>23,578</u>            | <u>25,350</u>            | <u>1,772</u>                             |
| Total Revenue               | \$ <u><u>156,837</u></u> | \$ <u><u>162,342</u></u> | \$ <u><u>5,505</u></u>                   |



CITY OF HARRISVILLE  
Alcona County, Michigan

GENERAL FUND  
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL  
For the Year Ended March 31, 2004

|   | <u>Budget</u>     | <u>Actual</u>     | Variance -<br>Favorable<br>(Unfavorable) |
|---|-------------------|-------------------|--|
| <u>Current</u>                              |                   |                   |  |
| General Government:                         |                   |                   |  |
| City council                                | \$ 12,116         | \$ 11,952         | \$ 164                                   |
| Elections                                   | 1,480             | 1,470             | 10                                       |
| Assessor                                    | 6,096             | 6,095             | 1  |
| Clerk                                       | 15,646            | 15,628            | 18                                       |
| Treasurer                                   | 6,817             | 6,804             | 13                                       |
| Board of review                             | 455               | 455               | 0  |
| Other city property                         | 37,097            | 35,878            | 1,219                                    |
|   | <u>79,707</u>     | <u>78,282</u>     | <u>1,425</u>                             |
| <u>Public Safety</u>                        |                   |                   |  |
| Police                                      | 4,500             | 4,500             | 0  |
| Zoning administration                       | 950               | 900               | 50                                       |
|   | <u>5,450</u>      | <u>5,400</u>      | <u>50</u>                                |
| <u>Public Works</u>                         |                   |                   |  |
| Streets and sidewalks                       | 50                | 38                | 12                                       |
| Street lighting                             | 11,600            | 11,576            | 24                                       |
|   | <u>11,650</u>     | <u>11,614</u>     | <u>36</u>                                |
| <u>Recreation and Cultural</u>              |                   |                   |  |
| Harbor                                      | 15,439            | 15,139            | 300                                      |
| Mill Pond project and lighting              | 168               | 167               | 1  |
| Special events                              | 6,020             | 6,012             | 8  |
| Airport                                     | 3,954             | 3,950             | 4  |
|   | <u>25,581</u>     | <u>25,268</u>     | <u>313</u>                               |
| <u>Other Functions</u>                      |                   |                   |  |
| Insurance, bonds and fringes                | 14,433            | 14,355            | 78                                       |
| Social security                             | 3,237             | 3,236             | 1  |
| Other                                       | 849               | 834               | 15                                       |
|   | <u>18,519</u>     | <u>18,425</u>     | <u>94</u>                                |
| Capital Outlay                              | <u>3,130</u>      | <u>3,126</u>      | <u>4</u>                                 |
| Total Expenditures                          | 144,037           | 142,115           | 1,922                                    |
| <u>Other Financing Uses</u>                 |                   |                   |  |
| Operating transfer - fire protection fund   | 15,800            | 12,092            | 3,708                                    |
| Total Expenditures and Other Financing Uses | \$ <u>159,837</u> | \$ <u>154,207</u> | \$ <u>5,630</u>                          |

CITY OF HARRISVILLE  
Alcona County, Michigan

ALL SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
March 31, 2004

|                                    | Major<br>Street Fund | Minor<br>Street Fund | Fire<br>Protection Fund | Liquor Law<br>Enforcement Fund | Totals<br>March 31, 2004 |
|------------------------------------|----------------------|----------------------|-------------------------|--------------------------------|--------------------------|
| <u>ASSETS</u>                      |                      |                      |                         |                                |                          |
| Cash                               | \$ 60,435            | \$ 0                 | \$ 0                    | \$ 0                           | \$ 60,435                |
| Certificates of deposit            | 115,950              | 66,034               | 0                       | 0                              | 181,984                  |
| Investments                        | <u>48,890</u>        | <u>38,139</u>        | <u>37,739</u>           | <u>1,082</u>                   | <u>125,850</u>           |
| Total Assets                       | <u>\$ 225,275</u>    | <u>\$ 104,173</u>    | <u>\$ 37,739</u>        | <u>\$ 1,082</u>                | <u>\$ 368,269</u>        |
| <u>LIABILITIES AND FUND EQUITY</u> |                      |                      |                         |                                |                          |
| <u>Liabilities</u>                 |                      |                      |                         |                                |                          |
| Accounts payable                   | \$ 0                 | \$ 0                 | \$ 7,275                | \$ 0                           | \$ 7,275                 |
| <u>Fund Equity</u>                 |                      |                      |                         |                                |                          |
| Fund Balances:                     |                      |                      |                         |                                |                          |
| Unreserved:                        |                      |                      |                         |                                |                          |
| Undesignated                       | <u>225,275</u>       | <u>104,173</u>       | <u>30,464</u>           | <u>1,082</u>                   | <u>360,994</u>           |
| Total Liabilities and Fund Equity  | <u>\$ 225,275</u>    | <u>\$ 104,173</u>    | <u>\$ 37,739</u>        | <u>\$ 1,082</u>                | <u>\$ 368,269</u>        |

CITY OF HARRISVILLE  
Alcona County, Michigan

ALL SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
For the Year Ended March 31, 2004

|   | Major<br>Street Fund | Minor<br>Street Fund | Fire<br>Protection Fund | Liquor Law<br>Enforcement Fund | Totals<br>March 31, 2004 |
|---|----------------------|----------------------|-------------------------|--------------------------------|--------------------------|
| <u>Revenue</u>  |                      |                      |                         |                                |                          |
| Federal grants  | \$ 0                 | \$ 0                 | \$ 58,860               | \$ 0                           | \$ 58,860                |
| State revenue   | 32,268               | 12,092               | 0                       | 1,590                          | 45,950                   |
| Contributions   | 0                    | 0                    | 26,843                  | 0                              | 26,843                   |
| Charges for services  | 0                    | 0                    | 5,500                   | 0                              | 5,500                    |
| Interest on investments   | 1,099                | 1,641                | 0                       | 4                              | 2,744                    |
| Other revenue   | 545                  | 61                   | 91                      | 0                              | 697                      |
| Total revenue   | <u>33,912</u>        | <u>13,794</u>        | <u>91,294</u>           | <u>1,594</u>                   | <u>140,594</u>           |
| <u>Expenditures</u>   |                      |                      |                         |                                |                          |
| Current:  |                      |                      |                         |                                |                          |
| Public safety   | 0                    | 0                    | 95,957                  | 1,500                          | 97,457                   |
| Public works:   |                      |                      |                         |                                |                          |
| Construction  | 5,860                | 0                    | 0                       | 0                              | 5,860                    |
| Administrative and engineering  | 1,772                | 1,622                | 0                       | 0                              | 3,394                    |
| Routine maintenance   | 9,424                | 11,139               | 0                       | 0                              | 20,563                   |
| Winter maintenance  | 3,775                | 3,782                | 0                       | 0                              | 7,557                    |
| Traffic control   | 1,978                | 0                    | 0                       | 0                              | 1,978                    |
| Total expenditures  | <u>22,809</u>        | <u>16,543</u>        | <u>95,957</u>           | <u>1,500</u>                   | <u>136,809</u>           |
| Excess of revenue over (under) expenditures                             | 11,103               | (2,749)              | (4,663)                 | 94                             | 3,785                    |
| <u>Other Financing Sources (Uses)</u>                                   |                      |                      |                         |                                |                          |
| Operating transfers in  | 0                    | 7,800                | 12,092                  |                                | 19,892                   |
| Operating transfers out   | (7,800)              | 0                    | 0                       | 0                              | (7,800)                  |
| Total other financing sources (uses)                                    | <u>(7,800)</u>       | <u>7,800</u>         | <u>12,092</u>           | <u>0</u>                       | <u>12,092</u>            |
| Excess of revenue and other sources over<br>expenditures and other uses | 3,303                | 5,051                | 7,429                   | 94                             | 15,877                   |
| Fund balances - beginning of year                                       | <u>221,972</u>       | <u>99,122</u>        | <u>23,035</u>           | <u>988</u>                     | <u>345,117</u>           |
| Fund balances - end of year   | <u>\$ 225,275</u>    | <u>\$ 104,173</u>    | <u>\$ 30,464</u>        | <u>\$ 1,082</u>                | <u>\$ 360,994</u>        |

CITY OF HARRISVILLE  
Alcona County, Michigan

ALL ENTERPRISE FUNDS  
 COMBINING BALANCE SHEET  
March 31, 2004

|                                    | Enterprise          |                   |                     |
|------------------------------------|---------------------|-------------------|---------------------|
|                                    | Water Fund          | Sewer Fund        | Totals              |
| <u>ASSETS</u>                      |                     |                   |                     |
| Cash                               | \$ 24,125           | \$ 0              | \$ 24,125           |
| Certificates of deposit            | 154,328             | 30,000            | 184,328             |
| Investments                        | 136,798             | 56,929            | 193,727             |
| Accounts receivable                | 17,902              | 21,222            | 39,124              |
| Property, plant and equipment      | 1,428,275           | 1,365,698         | 2,793,973           |
| Accumulated depreciation           | <u>(434,048)</u>    | <u>(840,907)</u>  | <u>(1,274,955)</u>  |
| Total Assets                       | \$ <u>1,327,380</u> | \$ <u>632,942</u> | \$ <u>1,960,322</u> |
| <u>LIABILITIES AND FUND EQUITY</u> |                     |                   |                     |
| <u>Liabilities</u>                 |                     |                   |                     |
| Due to other funds                 | \$ 0                | \$ 9,000          | \$ 9,000            |
| Bonds payable                      | 522,000             | 0                 | 522,000             |
| Contract payable - county          | <u>0</u>            | <u>230,000</u>    | <u>230,000</u>      |
| Total liabilities                  | <u>522,000</u>      | <u>239,000</u>    | <u>761,000</u>      |
| <u>Fund Equity</u>                 |                     |                   |                     |
| Contributed capital                | 611,567             | 835,174           | 1,446,741           |
| Accumulated amortization           | (146,933)           | (579,535)         | (726,468)           |
| Retained earnings:                 |                     |                   |                     |
| Unreserved                         | <u>340,746</u>      | <u>138,303</u>    | <u>479,049</u>      |
| Total fund equity                  | <u>805,380</u>      | <u>393,942</u>    | <u>1,199,322</u>    |
| Total Liabilities and Fund Equity  | \$ <u>1,327,380</u> | \$ <u>632,942</u> | \$ <u>1,960,322</u> |

CITY OF HARRISVILLE  
Alcona County, Michigan

ALL ENTERPRISE FUNDS  
 COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS  
For the Year Ended March 31, 2004

|   | Enterprise        |                   |                   |
|---|-------------------|-------------------|-------------------|
|   | Water Fund        | Sewer Fund        | Totals            |
| <u>Operating Revenue</u>  |                   |                   |                   |
| Charges for services  | \$ 70,613         | \$ 83,200         | \$ 153,813        |
| Permits   | 2,400             | 2,870             | 5,270             |
| Service connection charges  | 3,053             | 2,490             | 5,543             |
| Refunds   | 63                | 51                | 114               |
| Total operating revenue   | <u>76,129</u>     | <u>88,611</u>     | <u>164,740</u>    |
| <u>Operating Expenses</u>   |                   |                   |                   |
| Salaries and wages  | 13,537            | 12,339            | 25,876            |
| Employee benefits   | 3,795             | 3,705             | 7,500             |
| Office expense  | 583               | 629               | 1,212             |
| Operating expense   | 3,250             | 142               | 3,392             |
| Telephone   | 796               | 1,030             | 1,826             |
| Insurance   | 2,114             | 1,277             | 3,391             |
| Utilities   | 1,958             | 2,447             | 4,405             |
| Repairs and maintenance   | 3,254             | 2,703             | 5,957             |
| Equipment rentals   | 2,284             | 2,804             | 5,088             |
| Professional fees   | 7,016             | 1,927             | 8,943             |
| State fees  | 538               | 0                 | 538               |
| Miscellaneous   | 1,961             | 0                 | 1,961             |
| Depreciation  | <u>31,018</u>     | <u>33,589</u>     | <u>64,607</u>     |
| Total operating expenses  | <u>72,104</u>     | <u>62,592</u>     | <u>134,696</u>    |
| Operating income  | <u>4,025</u>      | <u>26,019</u>     | <u>30,044</u>     |
| <u>Non-Operating Revenue (Expenses)</u>   |                   |                   |                   |
| Property taxes  | 39,636            | 0                 | 39,636            |
| Interest on investments   | 6,607             | 767               | 7,374             |
| Interest expense  | <u>(26,325)</u>   | <u>(12,350)</u>   | <u>(38,675)</u>   |
| Total non-operating revenue (expenses)  | <u>19,918</u>     | <u>(11,583)</u>   | <u>8,335</u>      |
| Net income  | 23,943            | 14,436            | 38,379            |
| Add depreciation on fixed assets acquired by grants, entitlements and shared revenue externally restricted for capital acquisitions and construction that reduces contributed capital | <u>11,600</u>     | <u>12,527</u>     | <u>24,127</u>     |
| Net increase in retained earnings   | 35,543            | 26,963            | 62,506            |
| Retained earnings - beginning of year   | <u>305,203</u>    | <u>111,340</u>    | <u>416,543</u>    |
| Retained earnings - end of year   | <u>\$ 340,746</u> | <u>\$ 138,303</u> | <u>\$ 479,049</u> |

CITY OF HARRISVILLE  
Alcona County, Michigan

ALL ENTERPRISE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
For the Year Ended March 31, 2004

|   | Enterprise        |                  |                   |
|---|-------------------|------------------|-------------------|
|   | Water Fund        | Sewer Fund       | Totals            |
| <u>Cash Flows From Operating Activities</u>                     |                   |                  |                   |
| Cash received from customers                                    | \$ 76,472         | \$ 87,139        | \$ 163,611        |
| Cash paid to suppliers and employees                            | (41,086)          | (29,003)         | (70,089)          |
| Interest received   | 299               | 0                | 299               |
| Refunds   | 63                | 51               | 114               |
| Net cash provided by operating activities                       | <u>35,748</u>     | <u>58,187</u>    | <u>93,935</u>     |
| <u>Cash Flows From Noncapital Financing Activities</u>          |                   |                  |                   |
| Property taxes received   | 39,636            | 0                | 39,636            |
| Cash paid to other funds  | 0                 | (5,000)          | (5,000)           |
| Net cash provided (used) by noncapital financing activities     | <u>39,636</u>     | <u>(5,000)</u>   | <u>34,636</u>     |
| <u>Cash Flows From Capital and Related Financing Activities</u> |                   |                  |                   |
| Purchase of property, plant and equipment                       | (28,725)          | (1,863)          | (30,588)          |
| Principal paid on contract payable - county                     | 0                 | (17,000)         | (17,000)          |
| Principal paid on bonds payable                                 | (9,000)           | 0                | (9,000)           |
| Interest paid on contract and bonds                             | (26,325)          | (12,350)         | (38,675)          |
| Net cash used by capital and related financing activities       | <u>(64,050)</u>   | <u>(31,213)</u>  | <u>(95,263)</u>   |
| <u>Cash Flows From Investing Activities</u>                     |                   |                  |                   |
| Interest on investments   | <u>647</u>        | <u>767</u>       | <u>1,414</u>      |
| Net increase in cash and cash equivalents                       | 11,981            | 22,741           | 34,722            |
| Cash and cash equivalents at beginning of year                  | <u>148,942</u>    | <u>34,188</u>    | <u>183,130</u>    |
| Cash and cash equivalents at end of year                        | <u>\$ 160,923</u> | <u>\$ 56,929</u> | <u>\$ 217,852</u> |

Supplemental Disclosure of Cash Flow Information

Deposit and investment balances per balance sheet:

|  |                   |                  |                   |
|--|-------------------|------------------|-------------------|
| Cash   | \$ 24,125         | \$ 0             | \$ 24,125         |
| Investments recognized as cash equivalents       | <u>136,798</u>    | <u>56,929</u>    | <u>193,727</u>    |
|  | 160,923           | 56,929           | 217,852           |
| Non-cash equivalent certificates of deposit      | <u>154,328</u>    | <u>30,000</u>    | <u>184,328</u>    |
| Total deposits and investments per balance sheet | <u>\$ 315,251</u> | <u>\$ 86,929</u> | <u>\$ 402,180</u> |

CITY OF HARRISVILLE  
Alcona County, Michigan

ALL TRUST AND AGENCY FUNDS  
 COMBINING BALANCE SHEET  
March 31, 2004

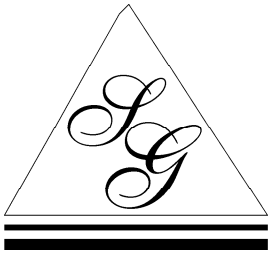
|                                    | <u>Trust and<br/>Agency Fund</u> | <u>Current Tax<br/>Collection Fund</u> | <u>Totals<br/>March 31, 2004</u> |
|------------------------------------|----------------------------------|--|----------------------------------|
| <u>ASSETS</u>                      |                                  |  |                                  |
| Cash                               | \$ 12                            | \$ 0                                   | \$ 12                            |
| Investments                        | <u>75</u>                        | <u>199</u>                             | <u>274</u>                       |
| Total Assets                       | <u>\$ 87</u>                     | <u>\$ 199</u>                          | <u>\$ 286</u>                    |
| <u>LIABILITIES AND FUND EQUITY</u> |                                  |  |                                  |
| <u>Liabilities</u>                 |                                  |  |                                  |
| Accrued liabilities                | \$ 87                            | \$ 0                                   | \$ 87                            |
| Due to other funds                 | <u>0</u>                         | <u>199</u>                             | <u>199</u>                       |
| Total liabilities                  | 87                               | 199                                    | 286                              |
| Fund balance                       | <u>0</u>                         | <u>0</u>                               | <u>0</u>                         |
| Total Liabilities and Fund Equity  | <u>\$ 87</u>                     | <u>\$ 199</u>                          | <u>\$ 286</u>                    |

CITY OF HARRISVILLE  
Alcona County, Michigan

ALL TRUST AND AGENCY FUNDS  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
For the Year Ended March 31, 2004

|                                    | Balance<br>April 1, 2003 | Additions         | Deductions        | Balance<br>March 31, 2004 |
|------------------------------------|--------------------------|-------------------|-------------------|---------------------------|
| <u>TRUST AND AGENCY FUND</u>       |                          |                   |                   |                           |
| <u>Assets</u>                      |                          |                   |                   |                           |
| Cash                               | \$ 510                   | \$ 21,456         | \$ 21,954         | \$ 12                     |
| Investments                        | <u>1,530</u>             | <u>94,003</u>     | <u>95,458</u>     | <u>75</u>                 |
| Total Assets                       | \$ <u>2,040</u>          | \$ <u>115,459</u> | \$ <u>117,412</u> | \$ <u>87</u>              |
| <u>Liabilities</u>                 |                          |                   |                   |                           |
| Accrued liabilities                | \$ <u>2,040</u>          | \$ <u>115,459</u> | \$ <u>117,412</u> | \$ <u>87</u>              |
| <u>CURRENT TAX COLLECTION FUND</u> |                          |                   |                   |                           |
| <u>Assets</u>                      |                          |                   |                   |                           |
| Cash                               | \$ 0                     | \$ 251,530        | \$ 251,530        | \$ 0                      |
| Investments                        | <u>189</u>               | <u>42</u>         | <u>32</u>         | <u>199</u>                |
| Total Assets                       | \$ <u>189</u>            | \$ <u>251,572</u> | \$ <u>251,562</u> | \$ <u>199</u>             |
| <u>Liabilities</u>                 |                          |                   |                   |                           |
| Due to other funds                 | \$ 189                   | \$ 109,498        | \$ 109,488        | \$ 199                    |
| Due to other units                 | <u>0</u>                 | <u>142,074</u>    | <u>142,074</u>    | <u>0</u>                  |
| Total Liabilities                  | \$ <u>189</u>            | \$ <u>251,572</u> | \$ <u>251,562</u> | \$ <u>199</u>             |





# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA  
-----  
Herman A Bertuleit, CPA

May 6, 2004

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the City Council  
City of Harrisville  
Alcona County, Michigan

We have audited the general purpose financial statements of the City of Harrisville, as of and for the year ended March 31, 2004, and have issued our report thereon dated May 6, 2004. In our report dated May 6, 2004, our opinion was qualified because the general purpose financial statements do not include the general fixed assets group of accounts. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the City of Harrisville's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Harrisville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Harrisville's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

### Separation of Duties in the Performance of Functions

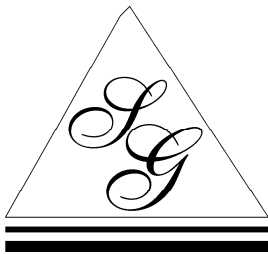
Due to the limited number of staff of the City, there is an absence of appropriate segregation of duties. The clerk receives cash, has control over non-cash accounting records and writes and signs checks. To offset this deficiency, bank reconciliations and a dual signature are required of the City Treasurer.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, City Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*

- 29 -



# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA

-----  
Herman A Bertuleit, CPA

May 6, 2004

Members of the City Council  
City of Harrisville  
Alcona County, Michigan

Dear Council Members:

We have audited the general purpose financial statements of the City of Harrisville for the year ended March 31, 2004, and have issued our report thereon dated May 6, 2004. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated January 22, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the City of Harrisville's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the City of Harrisville's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

## Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Harrisville are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Harrisville during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Harrisville's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Harrisville, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Harrisville's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Harrisville's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations:

General Fixed Assets

The City of Harrisville does not maintain records for the General Fixed Asset Group of Accounts. We recommend the Council begin planning to implement these records as soon as practicable.

Separation of Duties in the Performance of Functions

Due to the limited number of staff of the City, there is an absence of appropriate segregation of duties. The clerk receives cash, has control over non-cash accounting records and writes and signs checks. To offset this deficiency, bank reconciliations and dual signature are required of the City Treasurer.

This information is intended solely for the use of management, City Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grain & Co., P.C.*